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Wells Fargo Bankers Toting Guns Aim at 40% of Market: Mortgages

By Dakin Campbell on June 12, 2012

In mid-January, sales managers in Wells Fargo & Co. (WFC) (WFC)'s mortgage unit, the largest in the U.S., gathered at a hotel south of San Francisco dressed as cowboys, six shooters strapped to their hips.

The invitation said "40% or BUST!!" The goal: A bigger share of the business than they already control -- about 34 percent of all U.S. home lending and 13 percent of mortgages for purchases in the first quarter. About a dozen managers urged the audience of 500 loan officers to lend more, according to two attendees who asked their names not be used because they aren't authorized to speak publicly. Onstage, the men had fake mustaches and wore red-flannel shirts and jeans, the women long dresses like those in a movie western, one of the people said.

Chief Executive Officer John Stumpf has said the bank doesn't have market-share goals, even as it held the San Francisco rally and encouraged salespeople in New York and Atlanta. Regulators such as Edward J. DeMarco, acting director of the Federal Housing Finance Agency, have expressed concern about increasing concentration in lending, and analysts say the housing market has become too tied to the San Francisco-based lender since it successfully navigated the 2008 credit crisis.

"The part that amazes me is that back in the early days Wells Fargo said, 'we don't want as much market share,' " said David Lykken, a managing partner at Austin, Texas-based Mortgage Banking Solutions, who has more than 37 years of mortgage- industry experience. "Now, in many ways, they are the market."

Record Share

Wells Fargo's first-quarter market share for all mortgages, including new homes and refinancings, equal to $130 billion, is the most on record and more than triple the closest competitor, JPMorgan Chase & Co. (JPM) (JPM), according to Inside Mortgage Finance, a trade journal. It's up from 30.1 percent in the preceding three months and 13.3 percent in 2006.

Mortgage originations and sales accounted for 24 percent of the lender's fee-based revenue (WFC) in the quarter, with another 2 percent coming from servicing, according to an April 13 presentation. The lender reported $2.9 billion in income from mortgage banking as the Federal Reserve pushed down borrowing costs and government refinancing programs encouraged lending.

The bank wants more. The Jan. 19 sales rally at the San Francisco Airport Marriott Waterfront hotel in Burlingame, about 15 miles south of San Francisco, was billed as a "Purchase Stampede" in a memo e-mailed to employees, a copy of which was obtained by Bloomberg News. The invitation featured six horses pulling a stagecoach, the bank's traditional logo, and trailing a banner with the words: "40% or BUST!!"

One man wore chaps and showed off a lasso, while some women wore corsets, one of the people said.

Motivating Salespeople

The rally was aimed at motivating salespeople to lend more for new-home purchases, national sales manager Greg Gwizdz said in a June 8 telephone interview. Wells Fargo doesn't have a "stated market-share goal" and if its portion grows it's "a result of customers choosing us," he said.

The bank's retail channel controlled 13.3 percent of the market for loans to buy a house in the first quarter, according to data compiled by Inside Mortgage Finance. The rally didn't focus on other types of originations, including refinancings completed by Wells Fargo salespeople, or correspondent and wholesale channels, where the bank buys loans from other lenders, Gwizdz said.

"We are almost backing into this," Gwizdz said. "If we had some crazy high market share number, in order to get that number a lot of people came here to get their mortgage and they came here to get their mortgage because we're doing something right."

Skits, Discussions

The event gathered salespeople for a day of motivational speeches, skits and discussions about ways to gain a greater slice of the market, the people said.

Senior mortgage executives attended the rally. Drew Collins, billed on the invitation as a "special guest," is a division sales manager and senior vice president based in the Sacramento area, according to Vickee Adams, a spokeswoman. Arlene Allert, a retail regional sales manager and vice president based in the Bay Area, also attended, according to the people. Continental breakfast was served and the coffee ran dry, one person said.

Adams declined to make Collins and Allert available for interviews.

Salespeople elsewhere are receiving a similar message. In New York, loan officers are encouraged to reach for 40 percent or more, according to a person familiar with the strategy. In Atlanta, they're induced with prize drawings to file more applications and meet more real-estate agents, according to another person, who described the efforts as aggressive.

Customers' Needs

Stumpf has repeatedly said he doesn't care about Wells Fargo's market share, and is more concerned with serving the needs of customers. When pressed by analysts (WFC) to comment on the lender's growing investment bank, and its high growth rate and steady progress up the league tables, Stumpf said in January he couldn't "care less." He reiterated that view May 31, when asked by Sanford C. Bernstein & Co. analyst John E. McDonald about the company's growing command of the mortgage market.

"I don't care if we're 20 percent of the market or 10 percent or 30 percent," Stumpf said.

Wells Fargo executives have said it wasn't their goal for the company to become the largest lender. Refinancings have bolstered market share, according to Chief Financial Officer Timothy Sloan. These will account for about 68 percent of the market, or $870 billion this year, according to projections from the Mortgage Bankers Association.

Market Position

"If we're talking about the business two years ago, I don't think we would have imagined that our market share would be where it would be today," Sloan said during a May 1 investor conference. "We're going to continue to be focused in the business. We're going to continue to want to grow it."

In every investor presentation except one since the beginning of 2011, Wells Fargo has included an early slide listing the businesses where it holds a No. 1, No. 2 or No. 3 market position.

"I've never been a big believer of market share for market share's sake," said Ralph Cole, a senior vice president of research at Portland, Oregon-based Ferguson Wellman Inc., which manages $3.1 billion, including Wells Fargo shares. "If their underwriting standards are dropping to achieve it, that's what would worry us as investors."

Standards Maintained

There aren't signs those standards are slipping, said Cole and Lykken, as well as Clifford Rossi, a former risk manager and managing director at Citigroup Inc. (C) (C) who's now at the University of Maryland's Robert H. Smith School of Business, and analysts including Paul Miller at FBR Capital Markets in Arlington, Virginia. About 90 percent of Wells Fargo's originations are sold to Fannie Mae, Freddie Mac or Ginnie Mae, Mike Heid, the Des Moines, Iowa-based head of the mortgage business, said May 22.

Wells Fargo shouldn't be blamed for its dominance since it's a function of rivals' retreat and not its own actions, Pacific Investment Management Co.'s Scott Simon said May 7 at a Mortgage Bankers Association conference in New York.

"It's not Wells Fargo's fault they got so big," said Simon, the mortgage-debt head at Newport Beach, California-based Pimco. "If Wells Fargo went back to 20 percent, tried to cut themselves back more, it'd be hugely restrictive on credit."

Regulators have taken notice of the concentration. DeMarco, acting director of FHFA, the overseer of Fannie and Freddie, has said he'd like to see a more diverse mortgage market.

Origination, Servicing

"We have seen a great deal of concentration in mortgage origination and in mortgage servicing in recent years," DeMarco said May 15 at a speech in Washington. "Policymakers need to think hard about where and how regulatory requirements contribute to this growing concentration in the marketplace, and what might be done to reverse this."

At a May 31 conference, Bernstein's McDonald asked Stumpf whether the company was perhaps "getting too big." It also raises questions about Wells Fargo's status as a too-big-to-fail lender whose collapse could imperil the U.S. housing market, according to Mark Calabria, a director of financial regulation studies at the Cato Institute in Washington.

"The more concentrated anybody is in a specific market is worth watching," Calabria said in a phone interview. "This potentially increases the possibility that they are looked at as too big to fail. Were they to get into a lot of trouble the government would have to do something" to keep credit flowing to U.S. homebuyers, he said.

Too Good

Cole said Wells Fargo's history of avoiding many of the mortgage pitfalls that felled rivals earns them "the benefit of the doubt." In 2010, the Securities and Exchange Commission showed that Paulson & Co. had rejected subprime mortgage bonds from Wells Fargo when it was trying to find assets that the hedge fund could bet against because the quality of the underlying loans was too good. The bank hasn't posted an annual loss for at least a decade.

Wells Fargo is the most creditworthy of the large U.S. lenders, according to credit-default swap prices and its stock is up 18 percent over the last 12-months, outpacing all lenders in the KBW Bank Index (BKX) except for U.S. Bancorp.

Executives highlight the share they relinquished when firms such as Countrywide Financial Corp. offered cheaper pricing on loans with fewer document requirements and zero down payments. Heid pointed to the four-year period last month with a graphic titled "Industry leading market share." Three arrows pointed to the years of 2004 to 2007 on a bar chart with the note: "Market share forgone when industry didn't adhere to responsible lending principles."

Countrywide Fate

Countrywide was the largest U.S. mortgage lender as recently as 2007 before billions of dollars in soured loans prompted its sale to Bank of America Corp. (BAC) (BAC) Countrywide's losses have continued to plague the Charlotte, North Carolina-based lender, leading to more than $40 billion in losses and its retreat from the market. The bank held 4.2 percent of the market in the first quarter, according to Inside Mortgage Finance.

Wells Fargo is the only mortgage company with a top-5 ranking in originations and servicing each year since 1994, according to the bank.

"It will be harder for institutions to get by with a sizeable market share gain because regulators are watching these guys carefully," Rossi said. "I'm less concerned than I would be if we were back in the days when they had all these other products. It's the edgier stuff that got us all in trouble."

For now, Wells Fargo will continue to motivate salespeople to expand the business: another rally is scheduled for June 21.

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